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WHAT COOPERATIVE MEMBERS SHOULD KNOW

BY IRWIN W. RUST

FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE

**Farmer Cooperative Service
U. S. Department of Agriculture
Washington, D. C. 20250**

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The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies, confers and advises with officials of farmer cooperatives, and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

Foreword

This is one of a series of circulars on the effectiveness of cooperative directors, based on information developed during the 1964 series of member relations conferences sponsored jointly by Farmer Cooperative Service and the American Institute of Cooperation. The theme of the conferences was The Director's Role in Member Relations.

This circular is intended to stimulate thinking rather than to give specific answers to problems. The ideas expressed represent opinions of responsible cooperative leaders, educators, and others, based for the most part on their own experiences in day-to-day operating situations.

The following cooperative leaders presented many of the ideas expressed herein.

Lorin T. Bice, Member
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WHAT COOPERATIVE MEMBERS SHOULD KNOW

by Irwin W. Rust
Membership Relations Branch
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Exactly what and how much a member should know about the cooperative to which he belongs has long been of interest to managers, boards of directors, and the members themselves.

There is general agreement that every member should clearly understand what membership in a cooperative means—why farmers join, how they benefit, and what obligations they assume.

It is equally important, and generally agreed, that a member should be well informed concerning functions and operations of the cooperative—its current status and prospects for the future.

Opinions vary widely, however, when these questions are propounded: “How much detail should be furnished members?” and “Are there circumstances when the board of directors should withhold information?”

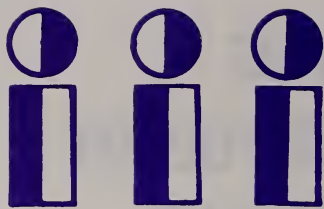
Some cooperative leaders firmly believe that members should receive complete information on every phase of the cooperative’s activities. They contend that more harm is done by members being uninformed than by the reverse.

Others believe equally firmly that too much information can be worse than too little.

A third—and probably the largest group—takes a middle ground. Their theory is that a member should know everything about his cooperative he can handle responsibly, everything that he can analyze without getting or giving a wrong impression and so doing harm to the association.

This publication brings you comments and opinions of cooperative leaders, based on their own experiences and efforts to solve this problem of information.

What a Cooperative is



First of all, every member should know what a cooperative is. He should know the history of cooperatives in general, their goals, and how they differ from other businesses.

With this as background, he should be able to answer these questions about his own cooperative. Why was it organized? What are its goals? Is it a marketing, a farm supply, or other type of cooperative? What direct and indirect benefits does it offer to members? What is the relationship between local and regional cooperatives?

The cooperative has a responsibility to make this information available to every member either before he joins the association or soon thereafter. It is also wise to review these points now and then as part of the regular member relations program.

Why Farmers Join



In planning its information program, a cooperative needs to recognize that all farmers do not have the same reason for joining. They have different motives and they have different goals.

Let's look more closely at why farmers do join cooperatives, how they expect to gain from their membership, and how these factors affect the type of information they want to receive.

Economic or Idealistic Motives

In earlier days, many farmers helped organize cooperatives through an idealistic desire to work together for the benefit of all. Cooperatives still are associations of farmers, working together for mutual benefit. However, many cooperative leaders believe idealistic motives have been largely pushed into the background today and that farmers are more interested in dollar and cents return.

An agricultural professor who holds this opinion says, "Unquestionably, there are still people who are strongly motivated to do good for others. However, as an economist, I would hold that most farmers join cooperatives to strengthen their own business and increase its overall profitability."

Long- or Short-Term Goals

When a farmer joins a cooperative, he may have a long-term or a short-term goal.

Because of his age or approaching retirement, a member may be concerned only with the short-run goals. In a farm supply cooperative, he is interested mainly in lower costs; in a marketing cooperative, in higher returns.

However, a young farmer starting out in a business that requires years to build up, such as a dairy, may be more concerned that his cooperative strengthen itself in the total business climate even though this may mean some sacrifice of short-run returns.

Effect on Information Desired

The type of information a member wants about his cooperative will depend to a great extent upon his motive in joining and his personal goals.

"Members who joined the cooperative primarily for economic reasons and with short-term goals want to know that they can get a better price, a better quality product, and better service from their cooperative than anywhere else. They are not deeply interested in the objectives and structures of the cooperative," a cooperative president believes.

It is in the cooperative's interest to stimulate a desire for additional knowledge on the part of this group. They will be better members if they can be convinced that there is more to a cooperative than the price tags on the goods and services.

"At the other extreme are the farsighted members whose goals are broader than mere economic gain," continues the cooperative president quoted above. "They are keenly interested and eager to know in considerable detail about the inner workings of the association. They are willing to put forth extra effort to attend meetings, read, ask questions, and learn for themselves."

This group can be of great help in a member relations program.

Members' Dual Role



Regardless of his motive in joining or his specific goal, every member has a dual role in the cooperative. He is both a patron and an owner.

Most members understand their role as patrons. However, they may be less keenly aware that when they joined the cooperative, they became part owners and as such share in the responsibility for the success or failure of the association.

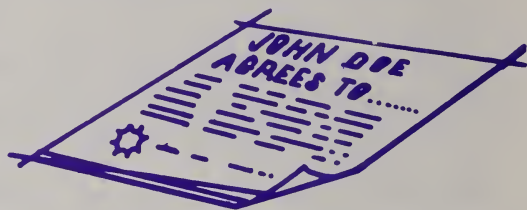
Cooperatives have found it effective in explaining this to members to compare ownership in the cooperative with ownership of land and equipment. A farmer would indeed be a poor businessman if he did not know how to operate his farm machinery and take care of his land. Likewise, he is a poor businessman if he does not know enough about his cooperative to use it to best advantage in his farm operation.

A member should be sufficiently well informed not only to protect but also to promote the well-being of the association and so increase the value of this investment.

A cooperative staff member makes this comment on members' dual role and its relation to information, "As owners, members should have much the same information available to them as owners or stockholders in any other business—financial and operating statements are basic.

"As patrons, they need to know the accomplishments of the business and how well it is meeting members' requirements."

Members' Obligations



"Members need to know they cannot take their association for granted," a cooperative banker says. "Too often they sign a membership agreement, pay their fees, and then want to sit back. . . ."

Some acknowledge no more obligation to patronize their cooperative than to trade at a particular retail store.

Here, again, the cooperative has a responsibility to inform. Members must be made aware that loyal patronage is expected of all of them. Participation in cooperative activities, and particularly in selecting directors, is likewise an obligation.

Loyalty

Cooperative leaders often emphasize the importance of loyalty in a cooperative and the importance of information in building that loyalty. One says, "A newly developing cooperative must rely upon loyalty to gain the volume necessary for desired efficiency. A well established cooperative also needs loyal patrons who will continue their patronage even if circumstances force the association to operate with the same pricing schedule as other businesses in the community.

“That type loyalty cannot be obtained without knowledge and understanding on the part of the membership.”

A recent study of loyalty, measured in terms of degree of patronage and support of the cooperative as an institution, among members of cooperatives in Indiana would seem to confirm this.

Loyalty and cooperative awareness are closely related, the study showed. Ninety-five percent of the loyal patrons contacted acknowledged that they were members of a cooperative and 75 percent of these attended annual meetings. On the other hand, 50 percent of the nonloyal members claimed they did not belong to a cooperative and 85 percent of these did not attend meetings.

Loyal members gave interest in cooperatives and services received as their main reasons for patronage. Medium-loyal members (those who patronized a cooperative part of the time) were primarily concerned with price factors. Nonloyal members gave a wide variety of reasons for their lack of patronage.

Medium-loyal members accounted for more than two-thirds of those surveyed. They tended to be shoppers and to have a neutral attitude toward cooperatives.

A more adequate information program might substantially increase the support and patronage from this group.

The survey also indicates that cooperatives need to make a greater effort to point out the differences between cooperatives and other businesses, emphasizing that farmers purchase quality and a unique institution as well as a product when they buy from a cooperative.

A strong member relations program could do much to correct these deficiencies.

Participation

Members should understand that they have an obligation to participate in the work of the cooperative.

Expected of All

Two types of participation (in addition to patronage and financing) are expected of every member and are vital to the success of the cooperative: (1) Attendance at membership meetings; and (2) helping select directors.

Members who want to know what is going on in their cooperative attend membership meetings regularly. This is so fundamental that it needs no further discussion here.

But, judging from the comments of cooperative leaders, some members are not fully aware that one of their most important functions is to participate in the selection of the directors who are to be entrusted with the business management of the cooperative.

It is, of course, the duty of the cooperative to set up democratic procedures for the nomination and election of directors and to publicize the qualifications of candidates.¹ The members, as part owners of the cooperative, should then make every effort to determine if candidates are capable and have the qualifications needed to handle the job they are seeking.

A cooperative leader comments, "I believe one of the hardest things for a member to learn is how to choose directors wisely. Elections are too often decided on the basis of personal popularity or for other reasons which have little to do with candidates' qualifications for the job."

Then he offers this guideline for selection. "Members might consider this. A director who is a statesman thinks he belongs to the association. A director who is a politician thinks the association belongs to him."

Expected of Some

At times members may be asked to serve on committees, work on membership campaigns, or represent the association at conferences or meetings. The frequency with which members may be asked to perform these tasks will depend in part on the size of the cooperative and the number of activities in which it is involved.

In any case, not every member will be requested to participate in all these capacities. However, members should be well enough informed about their cooperative to be able to accept such assignments, if requested, and to handle them creditably.

How the Cooperative Functions

When a farmer decides to join a cooperative, he does so because he believes that membership and participation in the association have something to offer him.

Wives of members also should understand how the cooperative operates—what services and products it offers; what such terms as "patronage refund" and "net margins" mean; and what rights and privileges membership grants. The cooperative has an obligation to provide this information.

Framework

Unquestionably, every member should be familiar with the basic documents of the cooperative.

¹ For further discussion see: Rust, Irwin W. ASSURING DEMOCRATIC ELECTION OF COOPERATIVE DIRECTORS. Educational Circular 21. Farmer Cooperative Service, USDA. 1965.

Let's start with the bylaws. What can a member learn from them?

A cooperative manager answers the question thus: "... he can determine the method of financing his cooperative uses to provide him with goods and services; the amount he must invest to become a stockholder and the maximum amount he is permitted to invest; how he, as a member, is represented by the board of directors; how elections are conducted; and how he can save through cooperative action with other members. . . ."

Ordinarily, copies of the bylaws are readily available. The problem is to get members to read them and to ask questions about any sections they do not understand clearly.

Contractual agreements are equally important. Cooperative representatives make a sincere effort to explain to a prospective member, both verbally and in writing, exactly what these agreements mean. However, misunderstandings sometimes arise because members did not comprehend what they were signing.

It is axiomatic that no one should sign a contract—with a cooperative or anyone else—unless he has studied carefully and is certain he understands every clause, including those in fine print.

Articles of incorporation, policy resolutions, and all other documents of the cooperative contain information which every member should feel obligated to study.

These documents provide the framework within which the cooperative functions. Without a thorough knowledge and understanding of them, a member is ill-equipped to evaluate the activities of the cooperative or to appraise the reports and statistics he receives from management and the board of directors.

Reports of Current Operations

Management and directors are responsible for keeping members informed of the current operating position of the cooperative.

The financial condition of their association is a matter of great concern to all members. Therefore, at regular intervals, they should be furnished operating statements and balance sheets.

Members should be told how well their association is maintaining its membership loyalty and its position in the business world.

They need to know if their cooperative is progressive and is keeping up with the times. This is important if they are to develop pride in their cooperative and their connection with it.

To this end, members should know about contemplated changes in facilities and in goods and services. This does not

necessarily mean that the members need to be informed of proposed changes when they are still in stages of negotiation or study. It is up to the directors to determine when and how much information of this type should be released. (We will discuss this in more detail later in this publication.)

Problems

Finally, members should be told frankly if the cooperative has operational problems. Half-truths, innuendoes, and partial information may cover up problems for a short time but will prove ineffective over a longer period. “Nothing is gained by trying to gloss over bad news or bury it in footnotes,” according to a president of a cooperative.

This is a point cooperative leaders have emphasized repeatedly. One says, “Members want to enjoy their cooperative’s success but they are also willing to share in its misfortunes. They are entitled, however, to hear the story direct from the leadership and not by rumor.”

And another, “Members should be told in a straightforward manner about operational problems. Directors and management can’t expect membership support unless they report honestly what a particular situation or decision means.”

More than once, adversity has served to draw members closer together. Members will try to understand and help if directors and management acknowledge mistakes or difficulties and present a plan for corrective action. In fact, members may come up with constructive suggestions for solving the problem.

What Members Need Not Know

Thus far in this publication we have explored the subject of what a member should know. It is equally important to consider what he need not know.

Directors are often perplexed over how much detail to include in reports and under what circumstances information should be withheld from members, either temporarily or as a matter of general policy.

Here is a sampling of opinions.

Minute Details

Usually the problem of how much detail to include in reports can be solved fairly easily. Directors can learn by experience

how much detail members really want and how much they can handle responsibly.

Speaking generally, all reports from committee chairmen, directors, and management should contain basic information and be presented in a form the average member will readily comprehend. It is not necessary to overwhelm the reader or listener with minute details.

A cooperative leader who takes a dim view of voluminous reports makes this down-to-earth analogy. "In manufacturing fertilizer, the amounts of the basic ingredients (nitrogen, phosphate, and potash) are the determining factors in product. The filler used is of no value except for the purpose of distribution.

"The same is true in my opinion of the information that is broadcast to members of a cooperative. Too much filler simply makes the product harder to handle and of less value to everyone. We should stick to these basic ingredients—policies, objectives, and results.

"Members should always be informed of policies or of changes in existing policies.

"From time to time members should be reminded of the objectives of the cooperative, goals that have been attained, and plans for the not-too-distant future. Members need to know how the association is coming along toward reaching its objectives—what is being done to improve operations, services, and financing."

It is usually a good practice to provide that reports presented at membership meetings are followed by a question period. Members who think the information given was too condensed can take this opportunity to ask for further details. Also, reports that are mailed may well include a notation that directors and management will be glad to discuss them with members.

Certain details of day-to-day operations should also be withheld from members. For example, members have a right to know that employees are being paid on a fair but not inflated wage scale and a total salary figure for all employees should be included in any report of expenditures. However, the exact salary of an individual employee and information in his personnel file are considered confidential.

If a cooperative has an effective member relations program and if members have confidence in their directors, all questions on such matters can be handled without serious problems.

Details That Could Be Harmful

Certainly every cooperative wants to make clear to members that it is not operating on the theory that what members don't know won't hurt them. Such an approach would inevitably lead to lost business and lost members.

On the other hand, under some conditions release of full information to the general membership may be damaging to the cooperative. Should a cooperative that is negotiating a new contract with a supplier reveal the details to members? No. Regrettably, there may be a few members who have a personal interest in a competitor and who would not be reluctant to reveal this information.

If a study is being made of a possible merger or consolidation, premature release of information can be disastrous. Such propositions often are highly charged with emotion and it is usually best to avoid discussions with members until the board is ready to submit a recommendation. At this point, directors should be prepared to present full details of the action contemplated and its effect upon the association.

Likewise, and for obvious reasons, a real estate transaction may need to be handled quietly without the knowledge of the general membership. Experience also has shown that serious problems can arise if information is disclosed on pending contractual or marketing agreements.

In the final analysis, most cooperative members realize that they have a stake in their association. They realize that it derives its strength and ability to serve them from the constructive support of all members, themselves included.

So they have a responsibility which goes hand in hand with the privilege of membership. And to carry out this responsibility they need information to be able to make wise decisions as occasion demands.

Other Publications Available

Assuring Democratic Election of Cooperative Directors. Educational Circular 21. Irwin W. Rust.

Creating Training Programs for Cooperative Directors. Educational Circular 22. Irwin W. Rust

Using Cooperative Directors To Strengthen Member Relations. Educational Circular 23. Irwin W. Rust.

Managing Farmer Cooperatives. Educational Circular 17. Kelsey B. Gardner.

Improving Management of Farmer Cooperatives. General Report 120. Milton L. Manuel.

Directors of Regional Farmer Cooperatives—Selection, Duties, Qualifications, Performance. General Report 83. David Volkin, Nelda Griffin, and Helim H. Hulbert.

Bylaw Provisions for Selecting Directors of Major Regional Farmer Cooperatives. General Report 78. Helim H. Hulbert, David Volkin, and Nelda Griffin.

“Mr. Chairman—” Information 6.

Membership Practices of Local Cooperatives. General Report 81. Oscar R. LeBeau.

Making Member Relations Succeed. Information 32. Irwin W. Rust.

A copy of each of these publications may be obtained upon request while a supply is available from—

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